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THE SECRETARY OF COMMERCE
Washington, D.C. 20230

MEMORANDUM FOR: The Vice President
The Secretary of State
The Secretary of Defense
The Secretary of Agriculture
The Secretary of Energy
The Director, Arms Control and
Disarmament Agency
The Chairman, Joint Chiefs of Staff
The Director of Central Intelligence

FROM: Philip M. Klutznick

SUBJECT: PRC Meeting on Argentina: Bilateral Trade Factors that Merit Consideration

The PRC is scheduled to meet to review U.S.-Argentine relations in light of recent Soviet initiatives in Argentina. Such a review would not be complete without consideration of the significant developments in U.S.-Argentine trade. Thus, I am attaching a memorandum summarizing this bilateral trading relation.

The following points bear highlighting:

1. Argentina now has a very free market with substantial potential for U.S. exports. At the recent trade fair in Miami and in several other contexts the Argentine officials have made clear their interest in improving trade with the U.S.
2. Bilateral trade with the U.S. is strong and improving. Continued improvement would have both political and economic benefits for the United States. (We are, of course, not unaware of the conditions relating to human rights and other factors which have slowed such improvement in recent years, and which must still be considered.)
 - a. Continued improvement in bilateral trade would help offset the Soviet Union's vigorous effort to expand its trade with Argentina and then exploit its trade position politically.
 - b. It would help demonstrate to the Argentines the tangible value of improving their relations with the U.S.
 - c. The strengthened economic interchange would have substantial benefits for the U.S. For example, the Yacyreta hydroelectric project, if awarded to the U.S. bidders, would create 18 million hours of work for U.S. workers.
3. In the proposed October meeting of the U.S.-Argentine Mixed Commission it would be in the U.S. interest to respond affirmatively, to the extent possible, to Argentine concerns on bilateral trade issues.

Attachment

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BACKGROUND INFORMATION

(U) U.S. Trade with Argentina. Argentina is the fourth largest market for U.S. exports in Latin America, after Mexico, Venezuela and Brazil, and ranks twentieth in the world. Following Argentine trade liberalization measures of the late 1970s, particularly reduction in customs duties, U.S. exports to Argentina registered impressive gains. A striking 124 percent increase in U.S. exports was achieved in 1979 over 1978, with total sales of nearly \$1.9 billion resulting in a U.S. trade surplus with Argentina of \$1.3 billion. The resumption of Eximbank lending to Argentina in the autumn of 1978 has also stimulated U.S. exports.

(U) Argentina is an important supplier in the international market as well as a significant U.S. import market. The country's exports exceeded \$6.5 billion in 1979; imports climbed to over \$5 billion, nearly \$2 billion of which was supplied by U.S. exporters. West European suppliers and Japan represent the major foreign competition for U.S. suppliers to the Argentine import market.

(U) The major items imported into Argentina from the U.S. include aircraft, organic chemicals, construction and other heavy duty earthmoving equipment, automotive parts, and telecommunications equipment. The best prospects for U.S. manufacturers in the future include, in addition to the items previously noted, machine tools, electric power generation, transmission and distribution equipment, and chemical and petrochemical machinery. The prospects for increasingly larger volumes of U.S. exports to Argentina appear quite promising.

(U) Argentine imports may be up by 20-25 percent in 1980. In all likelihood the Argentine market for industrial and raw material imports will be even larger in 1980 than the boom market of 1979. As noted previously, U.S. exports to Argentina more than doubled in 1979, despite aggressive European and Japanese competition.

(U) Although the U.S. is Argentina's largest single trading partner, the Soviet Union represents an extremely important market for Argentine suppliers. Argentine exports to the USSR increased nearly 83 percent in 1978 over 1977. Currently, the Soviet Union receives more than 6 percent of total Argentine exports, a considerable amount of which is grain. Argentina's balance of trade with the USSR in 1978 ran a surplus in excess of \$370 million.

(U) Bilateral Trade Issues of Concern to Argentina. For the past two months the Department of Commerce has reviewed with the Argentines the current bilateral trade issues of concern to them. Recently decisions favorable to Argentina have been made by the USG on several of these issues. Argentina was redesignated a beneficiary country for the United States Generalized System of Preferences (GSP) on several products, including sugar and corned beef, and a number of new items of interest to Argentina were added to the GSP list. (Several import-sensitive items which Argentina wished to have included were not added during the recently completed GSP review.) In addition, President Carter announced on March 24 that he had decided not to grant import relief to the U.S. leather wearing apparel industry, despite a finding by the ITC that the U.S. industry was being injured by increased imports. Twenty million dollars in Argentine exports would have been affected if import relief had been granted.

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(U) Among the other issues raised by Argentina are the U.S. insurance industry's claim that Argentine maritime cargo insurance requirements are discriminatory, and the Food and Drug Administration's study of nitrites in foods that could affect Argentine exports of corned beef to the U.S. These two issues are currently being reviewed in the U.S. Government.

(U) The Argentines also raised the issue of countervailing duty actions the U.S. has taken against Argentine products. Argentina has not signed the MTN Subsidies Code, although it has indicated its intent to do so. Argentine accession to the Code would improve the prospects for removal of these duties.

(U) The Argentines questioned sanitation requirements administered by the Department of Agriculture which are applied to unwashed wool and cooked ground meat imported from Argentina. These requirements are designed to protect against hoof and mouth disease.

(U) The Argentines asked for an increase in the cheese quota and for the addition of a quota for Mozzarella cheese. Argentina has been informed that it will not receive a quota for Mozzarella cheese. The procedure for redistributing other unfilled cheese quotas is well established and any future redistributions will be handled as in the past. Argentina would be given a similar opportunity to fill such a shortfall.

(U) The Argentines also asked that the U.S. not reimpose import restrictions on specialty steel and not increase sales of quebracho extract from the strategic reserves. Neither of these actions is expected to be taken by the U.S.

(U) U.S. Investment in Argentina. Argentina's foreign investment laws are among the most liberal in Latin America and do not exclude foreign investment from any sector. U.S. foreign direct investment in Argentina as of yearend 1978 totalled \$1.7 billion, up from \$1.5 billion in 1977 and \$1.0 billion in 1970.

(U) As a host country for U.S. foreign investment, Argentina ranks 19th in the world and 5th in Latin America (excluding tax havens in the Caribbean), after Brazil, Mexico, Panama, and Venezuela. The hydrocarbon, automotive and financial sectors are the primary attractions, although investments are also being made in the machinery and equipment, drugs and cosmetics, chemicals, and food, beverages and tobacco sectors. The mining sector is also emerging as a potential focus of major new MNC activity. International investor confidence is definitely on the upturn as a result of the apparent stability and economic achievements of the military government, attractive investment guidelines, and a government drive to inform businessmen of opportunities.

(U) OPIC. From 1959-1970 OPIC had an inconvertibility agreement with Argentina, but from 1970-1976 experienced a great many claims of inconvertibility and, therefore, stopped issuing guarantees. Any plans to arrive at a new agreement (covering inconvertibility or expropriation) after the new government assumed power in 1976 were shelved as a result of the human rights problem. In addition, OPIC's new focus on lower income developing countries would further reduce any OPIC activity in Argentina even if the human rights issue were to be resolved.

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The Yacyreta Hydroelectric Project

(U) A joint Argentina/Paraguay undertaking, Yacyreta is the largest infrastructure project and the most potentially lucrative U.S. export opportunity in Latin America. Currently at stake are contracts for turbines and generators and civil works services having an export value of \$830 million. Bid submissions are due this June, and contract awards are expected in October or November (turbines and generators) and next January (civil works).

(C) Competition is intense -- primarily from a Japanese consortium, Argentine and Spanish firms, and a consortium of West German, Italian and Russian entities. The U.S. Ambassador to Paraguay advises that the latter consortium is favored. When asked by an Argentine envoy, President Stroessner reportedly raised no political objections to the possibility of the turbine generator contract going to a group which includes the Russians.

(C) The Soviets have previously supplied hydroelectric equipment to Argentina. The Soviet enterprise Energomachexport was awarded the contract for twelve 140 MW hydraulic turbines at Salto Grande in 1974 for the price of \$40 million. The U.S. company was the next lowest bidder for \$58 million.

(C) There have also been press reports and reports from other sources that the Soviets received oral commitments from Argentina to purchase Soviet hydroelectric generating equipment during the recent visit of the Soviet mission to Argentina. This commitment appears to be a general commitment for future purchases of Soviet equipment and does not relate specifically to the Yacyreta project.

(C) Morrison-Knudsen has requested OPIC insurance coverage for construction equipment and bonding for the Yacyreta project. A meeting of the Interagency Group on Human Rights and Foreign Assistance (Christopher Committee) is scheduled to consider this request on May 15.

Human Rights Issue and the IFIs

(U) The Harkin Amendment requires the U.S. representative to the IBRD and IDB not to support (i.e., either to abstain or oppose) loans by these IFI's to gross violators of human rights, except loans that directly meet Basic Human Needs. The policy is administratively implemented so that the beneficiaries of the loan must be the poor or disadvantaged. Since 1977, the U.S. representative has abstained on 19 IBRD and IDB loan proposals to Argentina and voted in favor of two. (Note: Eximbank financing is permissible under current policy, although with reservations from State's Humanitarian Affairs Bureau.) Eleven loan proposals are now in the IBRD and IDB pipeline for Argentina.

(U) How our trade interests in Argentina are affected by human rights policy is difficult to characterize with any precision. Exporters claim it has poisoned the commercial atmosphere for U.S. products, and that the exporters are themselves made uncertain by the apparent U.S. policy struggles and inevitable delays. No doubt some business has been consciously diverted to U.S. competitors by the Argentine authorities and private sectors.

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